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Palestine

# POST WAR PROBLEMS OF PALESTINE

by Harry Viteles

An Address delivered before the Conference on Reconstruction  
Problems of Asia under the auspices of the Research Bureau  
for Post War Economics at the Hotel Roosevelt, New York City,  
February 3, 1945



NEW YORK

1945



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I have interpreted my terms of reference literally, namely, that I was to deal with the post war economic problems of Palestine. There are, of course, in Palestine war scars. These can be healed by replacement, conversion and expansion. But Palestine does not have reconstruction problems in the generally accepted sense of the term. Material destruction has been very little; the UNRRA will repatriate the several tens of thousands of Balkan and other refugees who are in Palestine. The absorption into peace economy of the 30,000 men and women in the armed forces, the 7,000 in the special police and the unknown number—probably not less than 50,000—in war industries, is a reconstruction problem arising out of the war. But this should not prove too difficult if we can carry out the work in the spirit of the definition of reconstruction given by Dr. Bonné in his book on the "Economic Development of the Middle East", namely, that reconstruction is

"devising and coordinating all measures at the disposal of government in order to make the best use of a nation's human and material resources for the maximum yield and welfare of its subjects."

I consider it important to spend part of the time in giving a general sketch about Palestine which I believe is essential for a proper understanding and evaluation of Palestine's post war problems.

### Area and Climatic Conditions

Palestine, frequently referred to as the bridge which links Europe, Asia and Africa, the "Suez Canal of the Air," is comparable in size to Massachusetts or Belgium, about 10,400 square miles (including 272 square miles of lakes, rivers and other inland water). It has two all year round outlets to the sea, the Mediterranean on the West and the Red Sea (Akkaba) on the South. On the North there is Lebanon, the Switzerland of the Middle East, and Syria which together with Transjordan, which is the eastern boundary of Palestine, can be called the granaries of the Middle East. To

quote Lord Samuel, the first High Commissioner for Palestine: "Within the limits of a province Palestine offers the varieties of soil and climate of a continent. It is a country of mountain and plain, of desert and pleasant valleys, of lake and sea-boards, of barren hills, desolate to the last degree of desolation, and of broad stretches of deep and fruitful soil."

The extremities of height are illustrated by the twenty mile road from Jerusalem 3,000 feet above sea level to Jericho 1,200 feet below sea level, which Mrs. O'Hare McCormick has described as "The sunny floor of the world . . ." The climate of Palestine can be described as "Semi-arid with dry, warm, but not excessively hot summers and mild winters with heavy periodic rainfalls." (November to April).

The rainfall averages twenty-one inches per year but varies from less than seven inches in the Beersheba district in the South to thirty-eight inches in Metullah in the North; and the climate varies from nearly temperate with occasional frost and snow in Jerusalem to tropical temperature in the Jordan Valley for seven to eight months of the year.

The Negev, that is the Beersheba sub-district, accounts for nearly half of Palestine's six million acres which now is considered climatically desert and affords an uncertain living on a very low standard to a population of less than 100,000, mostly Bedouins. More than one-third of the three million acres considered cultivable are not cultivated at the present time. Experts agree that the rainfall, the rivers, lakes, springs and other inland water sources are sufficient to irrigate not less than from three-fourth to one million acres of land provided there is a unified centralized water program. The water question is not one of quantity but rather one of storage, pumping and distribution. The aforementioned estimate of there being water for three-fourths to one million acres of land is exclusive of the Jordan Valley scheme which Dr. Walter C. Lowdermilk has proposed.

At the present time there are only 100,000 acres of land in Palestine under irrigation, of which about 65,000 acres—equally divided between Jews and Arabs—are citrus groves. The main crops of the other 35,000 acres of irrigated land, of which 22,000 are cultivated by Jews, are bananas, vegetables and fodder for the dairy industry. Altogether the Jews own 425,000 acres of land of which nearly 55,000 are irrigated.

The question of water resources is one, if not the main post war problem for Palestine. It is a glaring example of an unused natural resource which not only can give a full basket to those who are there but also to many others. For every twenty-five acres of unirrigated land only one acre of irrigated land is required in Palestine. 750,000 acres of irrigated land can support an agricultural population of a half million; the same area unirrigated affords an uncertain and low standard of living to 100,000 people. The vagaries of rainfall in Palestine need no elaboration. The Gaza and Beersheba districts, preponderantly Arab in population, raises over 80 per cent of the barley grain on 500,000 acres in Palestine. At present there is one good crop every three or four years; the total annual crop varies from less than 50,000 to over 100,000 tons in the Gaza and Beersheba districts. The wheat crop for which five to six hundred thousand acres are used is a principal crop for the preponderant majority of the Arab peasants. The variability of the annual wheat crop from less than 50,000 to over 135,000 tons within the seven year period 1938-1944 reflects the precarious position of dry farming in Palestine. Yet with proper utilization of the water resources in Palestine, an appreciable acreage of wheat and barley could be given one or two irrigations and thus average crops could be assured barring the unforeseen. What this would mean for the country's economy in terms of "economic advancement and social security" for a large part of the population is self-evident.

### Raw Materials

Probably the most discussed question is the extent of the natural resources of Palestine; other than the human resources which Justice Brandeis referred to as "the greatest of Palestine's resources;—not only economically but spiritually."

Palestine's principal raw materials are the minerals and unlimited quantities of chemicals of the Dead Sea which are the principal raw materials for many hundreds of chemical compounds forming an endless chain. There have been developed cheap methods of exploiting the two billion tons of potassium chloride; the million tons of magnesium bromide; the twenty-two billion tons of magnesium chloride and the six billion tons of calcium chloride. East of Jerusalem, near the Judean hills, there are large deposits of phosphate, estimated at 220 million tons and suitable for the most part for the manufacture of cheap fertilizers which Palestine and

the Middle East countries require. The twenty million tons of peat in the Huleh may prove a valuable asset. The absence of coal is compensated by the oil pumped into Haifa which has a higher caloric value than has coal. There also must be considered as available for Palestine, assuming the implementation of the Atlantic Charter principle of "access, on equal terms, to the trade and raw materials of the world to all countries, great and small", the mineral resources of the neighboring countries. There is Cyprus with its large deposits of pyrites, asbestos, magnesites and chromium; Transjordan with large deposits of high grade phosphates; Egypt one of the world's biggest producers of manganese ore and having large deposits of phosphate, sodium carbonate and other minerals. And there is the cotton and cotton seed of Egypt and Palestine's citrus which is considered by many as among the best in the world.

There are two natural resources which have not received sufficient consideration in the discussions about the present and future of Palestine. Palestine is the "Land of Three Faiths" and will continue to attract large numbers of visitors. And Christians, Moslems and Jews throughout the world probably will continue to send funds into Palestine to support religious foundations. In normal years the number of tourists in Palestine was from sixty to one hundred thousand per annum.

Last there is Palestine's geographical position to which reference has been made previously. The *New York Times* on the 17th of January, 1945, describes Palestine in the following terms: "Palestine is situated in an ideal geographical location to give it a strategic importance far beyond its size and natural wealth. It borders on and commands the crossroads of the world and British imperial communication. It is the seaboard for the Mosul Kirkuk pipeline in Iraq. It is the Littoral for an extensive Middle East hinterland."

### Population

During the last quarter of a century Palestine's population has increased from 700,000 to 1,800,000. Immigration accounts for over 400,000 of whom 40,000 were non-Jewish immigrants, mainly from the Lebanon, Syria and Transjordan. About 650,000 of the 1,200,000 Arabs and 150,000 of the 570,000 Jews live in non-urban communities. While the number of Arab villages, about a thousand, has remained static, the number of Jewish agricultural settlements

and villages have increased from 70 with a population of 15,000 in 1922 to 257 with a population of 150,000 at the end of 1944. It is impossible to state how many of the 100,000 Arabs who have left their villages for employment in camps, war and other industries, will remain urban dwellers.

### **Investments in Palestine**

Raw materials, human material and capital are required for the development of any country. The Jewish immigrants not only supplied trained human material but also capital. During the last quarter of a century the immigrants brought with them in cash or goods about 70 per cent, or 450 of the 650 million dollars which has been estimated were invested in the development of the Jewish sector of Palestine. Most people are surprised by the relatively small amount, 125 million dollars, which came to Palestine through the channels of the various national funds, most of it through the Palestine Foundation Fund (Keren Hayesod), The Jewish National Fund (Keren Kayemeth) and the Hadassah. It is immigrants' capital which has financed and developed nearly all of the industry, commerce, citrus culture and a good part of building and of general farming.

### **General Federation of Labor (Histadut)**

The organized Jewish labor movement is a distinctive feature of Palestine life, which not only has left its imprint on the economic and social development of Palestine during the last quarter of a century, but will influence the development in the future. The influence of the Histadut is not confined to Palestine; but it extends to the neighboring countries. At the end of 1944 the Histadut reported a membership of over 100,000 who together with their families constituted 38 per cent of the total population. One of the Histadut's outstanding activities is the health service, namely The Workers Sick Fund (Kupath Holim) which looks after the health of about 200,000 Jews, nearly half of whom are not members of the Histadut. The Histadut activities undoubtedly influenced the Palestine Government to create a Labor Department, one of whose main functions is to organize the Arab workers into trade unions. Whether the Histadut gave an impetus to the trade union movements in Egypt and to a smaller extent in Lebanon and Syria is difficult to say. But it is not improbable that the fear of the influence of the Histadut on the workers in Egypt,

Lebanon, Syria and Iraq have contributed to antagonizing the bourgeois and wealthy of these countries to the development of Palestine.

### Agricultural Development

Lord Samuel in the report which he presented in August 1921 noted that the "methods of agriculture are, for the most part, primitive; the area of land now cultivated could yield a far greater product. There are in addition large cultivable areas that are left untilled."

Crop rotation, selection of seed, the rational use of suitable manure and fertilizers, modernization of agricultural implements, the introduction of mechanization, and particularly of tractors and combines, all have increased the productivity and return of dry farming. There are as many tractors in the collective farms of Palestine per cultivated acre as there are in the U. S. A. The new immigrants have succeeded in obtaining 440 kilograms of wheat and 616 kilograms of barley per acre as against the customary yield of 280 and 236 kilograms respectively. The war has given a fillip to deep ploughing and to the use of combines by the Arabs. The general improvement in agricultural methods is reflected in the increase of the general index of production and all crops from 95 in 1931 (taking 1926 to 1936 as one hundred) to 212 in 1943. The most pronounced development in agriculture has been in intensive farming, that is in irrigated crops, particularly of vegetables and fodder; in modern dairy farming and in poultry raising. Between 1925 and 1939 the estimated production of all vegetables increased from less than 18,000 to over 129,000 tons. Land rose during the war to nearly 229,000 tons. There is no need for Palestine to import any vegetables which are available in sufficient quantity practically all year around. Prior to the war, Palestine imported over 70 per cent of its potatoes. With an increase from an annual average of less than 9,000 tons of potatoes in 1936 to over 35,000 tons in 1944, Palestine has become an exporter of potatoes. Mr. Humphrey Bowman who was Director of the Department of Education of the Palestine Government in an address before the Central Asian Society in London, July 1944, stated: "In agriculture, horticulture, animal husbandry and poultry keeping, it is doubtful whether anywhere in the world more has been produced in a shorter time than by the Jews in Palestine."



The Government and the Jewish colonizing agencies have placed a great deal of emphasis on modern mixed farming which is directed towards supplying the farmers' own needs and that of the urban population. The success of dairy and poultry production is due to the introduction of pedigree stock from Europe and improved feeding and management. While the local cows yield only 600 to 700 liters per year, the pedigree cows produce 3,200 to 5,400 liters per year. The leghorn introduced from the United States lays on an average 150 eggs per year as compared to 70 eggs laid by the local hen. Between 1937 and 1944 the milk production of the Jewish farmers doubled, that is from about 33 to 65 million liters annually.

Of special significance is the increase between 1922 and 1939 of the citrus area from about 5,000 acres to nearly 75,000 acres. The exports increased from about 1¼ million cases during the 1921-1922 season to over 15¼ million cases during the 1938-1939 season. During the war there has been practically no citrus exports. And the area of citrus has decreased from 75,000 to 66,000 acres because the owners of about 9,000 acres discontinued even the minimum maintenance which most growers have been giving to their groves. This maintenance is limited to irrigation, a minimum of plowing and a little pruning. Many growers also have sold all of the movables from their groves, such as iron pipes, packing sheds, wind breaks, etc., because the growers had to find money to supplement the government's seasonal loans for maintenance which are sufficient to cover only about half the cost of the minimum maintenance. The citrus growers' debt to the government for seasonal maintenance advances amounts to 12 million dollars. The result of the minimum maintenance of groves is reflected in the decrease of the yields from 320 to 100 packed cases per acre. The restoration of the citrus industry which will for years continue to be the principal export industry is one of the most serious post war economic problems in Palestine.

Sir John Russell in summing up the lessons of Jewish resettlement in Palestine singles out two "notable contributions to two problems, of major importance. . . . One is the conservation of the soil. . . . Palestine is liable to serious soil deterioration and erosion just as are many parts of the Empire. The Jewish colonists have gained valuable experience in this problem. The other contribution is even of greater importance. Palestine has been a great

social laboratory where several different types of land settlement have been tried, under conditions more nearly comparable than is possible elsewhere."

These two results are singled out and referred to because they have an important bearing on securing social security for all in Palestine after the war. As Professor Russell points out: "the Jewish settlements . . . have lighted a torch to show the way to some of the obscure and difficult problems awaiting us in the post war world."

### Industry

During the last two decades and particularly during the last ten years Palestine has made considerable progress in what Colin Clark calls "secondary industries as manufacturing, mining and building." The Chairman of the United States Economic Delegation to the Near East after visiting Palestine recently is reported to have said that he "did not expect to find in this small out-of-the-way country such highly developed and efficient industry."

During the war the Palestine Government has displayed a greater interest in industry which has been developed by private initiative and capital and with only moderate protection from the government. The development of industry in Palestine is a confirmation of the views expressed by A. J. Brown in his pamphlet on "Industrialization and Trade" published by the Royal Institute of International Affairs, September 1943: "In these industries where the materials and power used are not expensive to bring from far away (either because they are used in small physical quantities in relation to the value of the product or because they are inherently transportable) abundance of labor of the kind chiefly required and closeness to the market are the main desiderata."

Palestine has developed industry because it has the basic materials: skill, capital and power—that is oil. It is estimated that in 1944 the total number of wage earners in Palestine had increased to 350,000 and the number of workers in factories and workshops to 75,000 of whom, according to the census made by the Jewish Agency Statistical Department in 1943, 61,000 were Jews. Of the 14,000 Arab factory workers there were 8,000 employed in 45 Arab textile plants; 1,000 by the Palestine Potash Company; and about 2,000 in 39 Arab soap factories. About 85 per cent of the LP. 20

million—at *prewar prices*—last year's value of industrial production was Jewish and nearly LP. 5 million was for the Army and Government. Further expansion of the Arab industries, particularly of the textile industry, are to be expected.

There is about LP. 15 Million invested in Palestine industry which is manufacturing 3,000 articles ranging from razor blades, fine precision instruments, pumps which are said to be as good as the American and British make, concrete boats, agricultural machinery, diamonds, etc. Mr. Babcock writing in *Fortune* magazine, 1944, describes Jewish industry as "shot through with symptoms of method and efficiency . . . concentrated on products of high value and small bulk that draw heavily upon the skill and technique. . . . Chemical research has built up a respectable production of pharmaceuticals. . . . Diamond cutters from Europe have reestablished their craft in Tel Aviv. Palestine electrical and precision instruments have played an important part in supplying the British Navy. . . . In Cairo Palestinian models appear in the shop windows where Paris and Vienna styles were formerly displayed."

There are 72 factories for fashion goods—all Jewish—which employ 1,500 workers using a quarter of a million meters of material manufactured locally. The textile factories in Palestine manufactured during 1944 about 2½ million meters of various fabrics worth ten million dollars. If Palestine could get another thousand power looms, these together with the present 600 power cotton looms would be able to produce an additional 3,000 tons of cotton textiles (exclusive of jute) which Palestine imported before the war. The greatest need of Palestine industry is new equipment. Dr. Kurt Grunwald describes the present position of the equipment of the Palestine factories in the following terms: "In Palestine we find a veritable industrial museum in our factories. A very large part of the equipment in 1936 consisted of old-fashioned machinery bought cheaply second hand. . . . We now require the most modern and efficient equipment if we are to survive in a competitive world."

Between 1922 and 1943 the number of Jewish factories and workshops increased from less than 1,900 employing about 5,000 people to 7,000 employing 61,000 people and the annual production from LP. 600,000 to over LP. 17 million—at *prewar prices*, and LP. 40 million at 1943 prices.

## Co-operative Movement

A few words about the co-operative movement in Palestine which has won the admiration of so many co-operators outside of Palestine. The Government in 1934 began to foster and organize the Arab Co-operative Movement which is primarily rural credit. But the Government has had no hand, except in an advisory and supervisory capacity, in the organization of the Jewish Co-operative Movement which had its beginnings over fifty years ago and has made such rapid strides during the last twenty years. At the end of June 1944 there were 1,050 active Jewish co-operatives with 140,000 members and 210 Arab co-operatives with 10,000 members. While the Jewish co-operative movement was primarily agricultural marketing and production, the Arab co-operative movement continues to be primarily rural credit unions (129 of the 210 societies). Of the twenty-five million dollar capital and reserves reported by the co-operatives, a quarter of a million dollars belong to the Arab societies and the rest to the Jewish co-operatives. In 1944 the total turnover of all Jewish co-operatives is estimated at one hundred million dollars of which 35 million was for agricultural products, 80 per cent of which is marketed co-operatively. About 80 per cent of the passenger automotive road transportation and 70 per cent of the goods are carried by the rolling stock of Jewish transportation co-operatives. I have the feeling that more progress could have been made in developing the Arab co-operative movement, if the Arab co-operative movement was not sponsored and fathered by Government. Many aspects of Arab rural life show that the Arabs have an appreciation of the advantages of co-operation and a sense of esprit de corps and of tolerance to make a success of co-operation. Joint Arab-Jewish co-operatives has as yet not been tried because the English co-operative expert who visited Palestine in 1932 advised against this. It is my opinion that joint Arab-Jewish co-operatives is within the realm of practicabilities.

## PRINCIPAL POST WAR ECONOMIC PROBLEMS

Post war economic problems in Palestine fall into two categories, namely, those problems which are a direct result of the war such as inflation, decrease of immigrants' capital, reduced construction and general production for civilian needs, conversion not only of the factories but of the general economic thinking from war to

peace time basis, the rehabilitation of the citrus industry and lastly the reabsorption into peace time economic life of the 100,000 men and women in the armed forces, special police, and those engaged in specialized war industries or in industries which wholly or partly had to go over to war production. In the second category are those post war economic problems which are endemic to the development of Palestine and which the war effort has forced into the background. They are primarily concerned with the maximum exploitation of all of the resources in the country, closer coordination of Jewish and Arab economic life, the coordination of Palestine economic life with that of other Middle East countries, particularly with the Lebanon, Syria and Transjordan, and improving the rationalization and efficiency of industry.

Time will not permit dealing with every problem separately. Nor is this necessary because there is a close relationship between many of the problems. For instance deflation is to a large extent dependent on the import of consumers and of capital goods. The import of capital goods needed for the reequipment of the factories and of building materials and accessories for constructing the 150,000 to 200,000 rooms which are required to house the present population at pre-war standards, and of machinery and pipes which are required to increase the irrigated area. These imports would create jobs not only for all of those who are now with the armed forces, special police and in war industries, but also for many others.

I am inclined to accept the view that post war shortage of most of the goods required by Palestine will be less acute and for a shorter period than is generally believed, particularly if England and the United States will carry out their plans for full employment and full basket.

The speed with which the post war problems of the first category and to some extent also those of the second category can be dealt with is closely tied up in the first place with the relationship of Palestine to England, and in the second place with the Middle East. Whether Palestine will be able to pay for the imports of consumers and of capital goods depends in the first place on England's decision about the sterling balance of 100 million pounds which Palestine has in England, and in the second place whether Palestine will have complete freedom to use its dollar exchange, that is the difference between the value of the goods which Palestine can import from the U.S.A. and the total amount which is transmitted to

Palestine every year in the form of public and other funds and estimated at twenty to twenty-five million dollars annually. If, for instance, Palestine could use only part of the twenty to twenty-five million dollars to pay for the imports from the U.S.A. and cover these amounts out of its pound surpluses in Palestine and in London, then the period of readjustment to a peace economy would be shortened considerably. Since these are questions which are still sub judice, they can only be mentioned.

With regard to the influence on Palestine because it is a part of the Middle East the following is an example. There is the question of industrialization of the Middle East—including Palestine—which falls within the category of "backward countries." The statement on new Colonial Policy does not describe correctly England's future attitude towards the Middle East and says nothing as to whether Palestine will receive that special consideration to which many think it is entitled because of its geographical position, its human and natural resources, its experience and accomplishments. Now for a few generalities about some of the post war problems of both categories. The order in which they are mentioned is not to be interpreted as my opinion about their relative order of importance. They all are important, interrelated and part of one picture, or shall I say part of one picture puzzle.

### **Absorptive Capacity**

*First*, there is the mooted question of absorptive capacity which I would define as the ability of a country to provide people with a livelihood, without trying to distinguish between existing and additional population. This absorptive capacity is not a static or an invariable condition. Absorptive capacity is not predictable and depends, particularly in Palestine with so much of its resources still undeveloped and unexplored, on what man's powers of economic creation produces and the extent of government's actual financial participation. Mr. A. Kahn writing in the *American Economic Review*, September, 1944, is correct in coming to the following conclusion: "Assuming continued economic development throughout the world, and an expansion of international trade, there are no limits assignable a priori, to the population which any one region may support."

Mr. Babcock in his article in *Fortune*, October, 1944, came to the same conclusion about absorptive capacity which he states will

depend to an appreciable extent on the inflow of outside capital for "irrigation and the development of cheap power."

The question of absorptive capacity is closely linked with the decrease of immigrants' capital which was mentioned as one of the post war problems and directly attributable to the war. Who will provide the capital which during the last twenty-five years amounted to 450 million dollars which was brought in by the immigrants? The easiest answer is assistance from governments and loans raised on the money market. Palestine's past warrants confidence of banks and other investors. But there is still another source which has the advantage of being more quickly exploitable and of minimizing the latent danger of money power and politics. This source are the Jews of the U.S.A., England and other Empire countries who feel their responsibility of helping in the development of Palestine. The over emphasis on giving during the last quarter of a century has created erroneous impressions which must be eradicated before large amounts required can be raised from individuals. First there is the exaggerated and erroneous impression that Palestine has been built with contributions. As a matter of fact contributions have amounted to only 125 million dollars or less than 20 per cent of the total amount which has been invested during the last quarter of a century in the Jewish sector of Palestine. The second erroneous impression is a direct corollary of the first, that is, how can you invest in a country which has been built up with donations. The excellent records of banks and financial institutions is over-shadowed by the exaggerated importance which has been placed on giving. Yet another difficulty to overcome is the unjustified hesitancy of individuals to make money out of Palestine. While the investments by individuals may not give the large amounts which are required and are not intended to replace the still larger amounts which governments and others must provide, nevertheless this is an important source for inflow of capital which is required at once for the post war development of Palestine.

### **Deflation**

*Second*, it is no secret that there is inflation in Palestine, not to the same extent as in other Middle East countries but serious enough. The general index of cost of living, in spite of controls, rationing and a legal ceiling for rents, is 150 per cent above the pre war level. This is lower than in Lebanon where the cost of

living index has increased by 400 per cent, in Iraq by 300, in Iran by 700. The inflation in Palestine as well as in the rest of the Middle East was due primarily to a shortage of goods. The imports to the Middle East decreased from five million tons in 1938 to about one million tons in 1943. In the case of Palestine the volume of imports decreased by over 50 per cent and in some goods by 70 to 80 per cent. On the one hand there is an inflated purchasing power and accumulated capital and on the other hand there are sufficient goods. The money boom is the result of a favorable balance of payment, huge military expenditures, and nonparticipation by the Middle East countries except indirectly, in the war expenses. The currency in Palestine has increased from 30 to 170 million dollars and the visible deposits (as distinguished from hoarded savings, mostly in currency) has increased from 100 to 280 million dollars. A considerable proportion of the expanded money increase is represented by production of goods and services for the armed forces and government which is valued at 400 million dollars during the war.

By the end of 1944 Palestine's sterling balance in London, which is called in London, "the abnormal balance", amounted to 100 million pounds sterling. The *Economist* of the 30th of December, 1944, in discussing post war prospects of Palestine economy correctly emphasizes that price deflation is one of the central problems and without which foreign capital cannot be attracted and large scale exports cannot be started.

It is hoped that there will not be a serious rise in world prices after the war because the increased means of production and the controls exercised by governments should be able to check such a rise. But in Palestine and in the whole Middle East deflation after the war is to be expected in view of the war differential in price levels. This price deflation seems impossible without large imports of both consumers and capital goods; the consumers goods to bring civilian consumption back to normal and the capital goods to bring down the cost of local production which is impossible with the present obsolete equipment. There is also the building materials and building accessories which are required to relieve the very serious housing shortage. The imports of consumers and capital goods will help reduce the cost of living and therefore the cost of labor. Since many building materials and accessories are imported, the import of these goods would reduce the building



cost in spite of the fact that the demand for new buildings would continue to be brisk for some time. The import of equipment and of raw materials for the factories would rationalize and increase production, both essential to reduce costs. The import of agricultural machinery and of adequate supplies of fertilizers, concentrated fodder, etc., would be reflected in lower prices for vegetables, eggs, milk, etc. Whether the deflation would be gradual or speedy is an academic question which Palestine economists and bankers cannot decide. If England will not permit Palestine to use its sterling balances in London and its surpluses dollar exchange for the purchase of consumers and capital goods obtainable outside of England, that is outside of the sterling area, the deflation period will be drawn out for reasons which do not require explanations.

### **Co-ordination of Jewish and Arab Economy**

*Third*, there is required more coordination between the Arab and Jewish economies in Palestine and between Palestine and the other Middle East countries, particularly with Lebanon, Syria and Transjordan. There is still much to be done to destroy the isolationism of the Arab and of the Jewish economies in Palestine. The war has brought about three apparent changes which may facilitate and even expedite a closer rapprochement between the Jewish and Arab economies. The Arabs of all economic strata and particularly the farmers have accumulated considerable capital. The dominant role of the money lender seems to have disappeared, at least for the present. Not only have 100,000 Arabs from the villages found employment in industries and camps at high wages, but there also has been a considerable reduction of the pre-war difference between the wage scale of Arab and Jewish labor, that is the difference between the wage scale of organized and unorganized labor. This diminishing differential was helped not only by the war but also by the Palestine Government whose Department of Labor has undertaken the organization of Arab labor unions. Lastly there are now signs of modernization of Arab economy, both agriculture and industry. These changes and others which may come, require careful consideration and handling. And in this government policy will be an important, if not the decisive factor.

The next question is that of coordination with other Middle East countries. The Mandates for Iraq and the Levant States provided that notwithstanding the acceptance of the principle of

the Open Door, these countries may conclude special customs agreement with any state the territory of which in 1914 was wholly included in Asiatic Turkey or Arabia. Some sort of federation or customs union may have been in the minds of the authors of these provisions in the Mandate. Until 1939 there was Free Trade between the Levant States and Palestine. The cancellation of these arrangements by mutual agreement and the exclusion of Iraq from the original agreement is due to the fact that the economics of the Middle East countries do not supplement each other. Their production is largely identical. They all are dependent on overseas both for imports and exports. 1937 was a good year for trade and yet less than 7 per cent of the Middle East trade was carried on between these countries. The principal staple export products of these countries, that is Palestine citrus; Egyptian cotton; Iraqi dates and oil; these cannot be absorbed within the Middle East block. It therefore would seem that Economic Federation cannot be the beginning of the "brave new world" but must be the outcome of it. Economic Federation of the Middle East countries could become healthy when the economic structure of the constituent states would have become more uniform. For a transitional period, a plan embodying preferential custom duties, seems preferable to a close customs union. This period also should be exploited for introducing into the Middle East countries, with such adaptations as are required to meet their special conditions, the co-operatives and various forms of settlements and other social and economic enterprises which have been found successful in Palestine.

T. E. Lawrence in 1916 wrote "Forced unions are pernicious; and politics, in such things, should come after geography and economics."

To build up a common interest and a common tradition with a view to eventual union for an improved division of labor between the Middle East countries, there should be formed in the first place an organization, loosely knit and flexible, like the prewar arrangement between the Scandinavian countries. Such an organization might be encouraged by an Allied Development Board for the Middle East which would also have at its disposal funds for the rational and social economic development of the Middle East countries. It would be also well to bear in mind the following warning about the danger of free migration between the Middle East countries which would result in emigration from the lower

wage and lower productivity and lower density countries such as Syria, Transjordan and Iraq, to the higher wage, higher productivity, and higher density countries of Lebanon and Palestine. Professor Eugen Staley in his memorandum on the Economic Organization of Peace which he submitted to the Carnegie Peace Foundation in 1941 wrote "Dangerous social conflicts would be set going by great population movements from countries of lower to countries of higher per capita productivity. The standard of living in the higher countries would be brought down, or at least prevented from rising as rapidly as otherwise, while there is no assurance that the living standards in the countries of emigration would rise correspondingly."

### Reorganization of Palestine Industry

*Fourth*, is the specialization of the various Middle East countries in accordance with the special conditions prevailing in these. The Lebanon seems destined to become the Switzerland of the Middle East; Syria and Transjordan with its vast unused areas and abundance of water can become the suppliers of many agricultural goods so urgently required. Palestine's future as an industrial center, particularly for the chemical and pharmaceutical branches; and the lighter metal and precision instruments; seem assured by Palestine's geographic position, the human material—that is the skill of its workers, foremen and entrepreneurs, and by the fact that Palestine has the plants. But to attain this future requires considerable reorganization, stock taking, and a frank exchange of views by all those concerned in industry, to mention only a few of the problems which must be dealt with at once if Palestine's geographic and other advantages are not to be squandered, and perhaps lost. While recognizing the importance of preserving the initiative and inventiveness of the small man, the uneconomic units in industry must be eliminated through rationalization, amalgamation and if necessary also by liquidation. The uneconomic unit has a direct bearing on the proportion of salaried earners per 100 operatives which in Palestine seems higher than in the British Empire and in the U.S.A. While wages in industry do not seem to consume a higher percentage of the cost price than in other countries, there is much to be done in increasing the productivity which may be defined as "the output per man per hour." This requires optimum functioning of labor, equipment, capital and management. Voca-

tional training for young and old must be increased as also must industrial research. The joint and full cooperation of all parties—labor, employers and government—is required to implement those conditions which are necessary for the assured development of industrial Palestine.

As one of those who has the privilege of living in and working for Palestine, I can share the following feelings of Mr. Humphrey Bowman, Director of Education for the Palestine Government for ten years, which he expressed at a meeting of the Central Asia Society in London in July, 1944: "Surely, to live and work in Palestine is an experience unsurpassed; to lend, however humbly, a hand in its revival, a unique privilege. Even the most skeptical can hardly remain unmoved by the surroundings. To him who has faith to believe, they bring help and encouragement to press forward, however steep the path to achievement of peace and prosperity in the Holy Land."

Published by the Committee on  
Cooperation with Post-War Planning Groups of  
THE AMERICAN ZIONIST EMERGENCY COUNCIL  
342 MADISON AVENUE  
NEW YORK 17, N. Y.